

CREDIT OPINION

1 April 2022

Update



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RATINGS

Aldar Properties PJSC

Domicile	Abu Dhabi, United Arab Emirates
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Aldar Properties PJSC

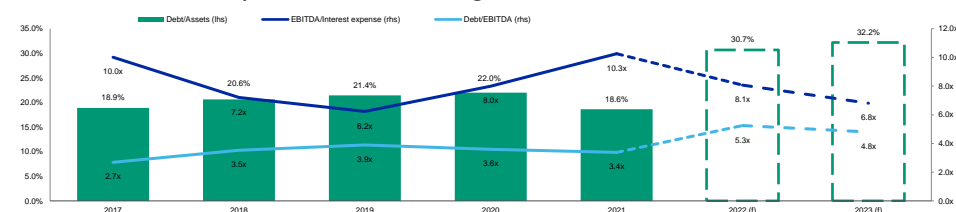
Update to credit analysis

Summary

Aldar Properties' (Aldar) Baa2 rating reflect our view that the company has built a solid business foundation and maintained a conservative financial profile over the last few years. The risks associated with its real estate development business is balanced by its portfolio of recurring income assets. In September 2018, [Aldar Investment Properties](#) (Aldar Investments, Baa1 stable) was established as a subsidiary of Aldar to hold and manage its recurring revenue properties. We view recurring income from investment properties to be of lower risk than a property development business given that it is a more stable and visible source of future earnings. At the same time, the development business allows the company to monetize its land bank and avail market opportunities, particularly as the demand for quality housing increases in [Abu Dhabi](#) (Aa2 stable) over the medium term. With business operations primarily in Abu Dhabi, the rating is constrained in the Baa category as a result of high geographic concentration and exposure to the higher risk real estate development business.

Exhibit 1

Credit metrics are well positioned for the rating



All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer, and consider the acquisition of income generating assets in Abu Dhabi and the rest of the UAE from April 1, 2022. Periods are financial year-end unless indicated.

Source: Moody's Investors Service

Credit strengths

- » Cash flow stability supported by recurring rental income
- » Strong liquidity profile and clear financial policy
- » Solid credit metrics

Credit challenges

- » Improving real estate market outlook in Abu Dhabi
- » Large expatriate population subject to demographic changes

» Geographic concentration with majority exposure to the Emirate of Abu Dhabi

Rating outlook

The stable outlook reflects our expectation that Aldar will be able to manage its property development risk while continuing to generate recurring cash flows.

Factors that could lead to an upgrade

Upward rating pressure could develop if the company (1) sustainably maintains adjusted gross debt to EBITDA below 3.0x and maintains EBITDA to interest expense above 8.0x.

Factors that could lead to a downgrade

The ratings could be downgraded if (1) Moody's adjusted gross debt to EBITDA trends towards 4.5x and EBITDA to interest expense falls below 6.0x.

Key indicators

Exhibit 2

	2017	2018	2019	2020	2021	2022 (f)	2023 (f)
Gross Assets (USD millions)	\$9,909	\$10,494	\$11,235	\$10,954	\$13,488	\$16,108	\$18,304
Total Debt + Preferred Stock / Gross Assets	18.9%	20.6%	21.4%	22.0%	18.6%	30.7%	32.2%
Net Debt / EBITDA	1.0x	2.5x	2.8x	2.3x	1.4x	4.1x	4.8x
Secured Debt / Gross Assets	8.7%	7.9%	6.8%	8.2%	5.8%	6.9%	6.1%
Fixed Charge Coverage	10.0x	7.2x	6.2x	8.0x	10.3x	8.1x	6.8x

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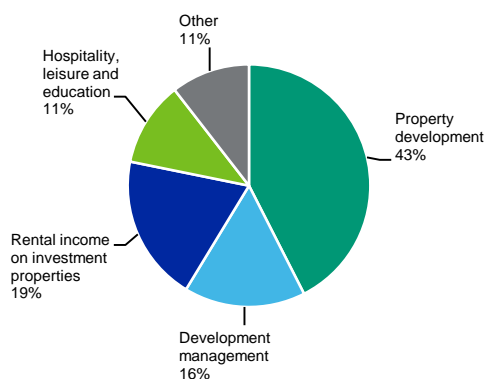
Source: Moody's Investors Service

Profile

Aldar Properties PJSC is the leading real estate developer in Abu Dhabi, operator of investment properties and land bank owners. Mamoura Diversified Global Holding PJSC (Aa2 stable) owns 25.12% of the company's share capital.

Exhibit 3

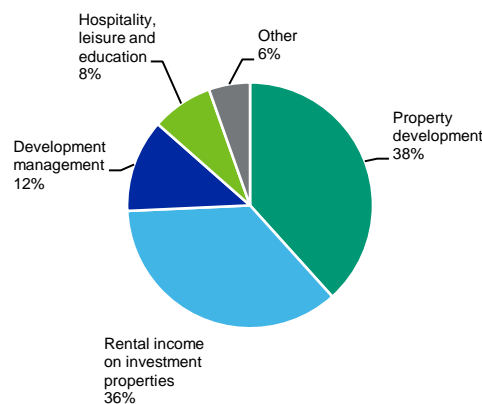
Revenue by segment



As of 31 December 2021

Source: Company data

Exhibit 4



As of 31 December 2021

Source: Company data

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Detailed credit considerations

Business profile underpinned by recurring revenue but high concentration to Abu Dhabi

Aldar has a high concentration risk with majority of its assets located in the Emirate of Abu Dhabi. This risk is mitigated by the company's product mix, tenant diversification and strong brand name. The recurring revenue portfolio comprises residential, office and retail assets as well as hotels and schools. Overall, the portfolio is well diversified in terms of asset classes with a high concentration of retail and hotel assets located in Yas Island. However, we also note that Yas Island is a beneficiary of continued government investment into the tourism sector.

In addition, development revenue will continue to be supported by the fee based contracts with the government of Abu Dhabi on key public housing and associated community infrastructure projects. An initial program of projects worth AED40 billion was handed over to Aldar in Q1 2021 for direct management or oversight. This is credit positive for Aldar because the projects are fully funded by the government of Abu Dhabi and there will be limited liability to Aldar for cost and projects overruns. Similarly, there will be no capital outlay or working capital contribution by Aldar. In 2021, project management services accounted for 27% of development revenue. This mandate demonstrates the strong relationship between the government of Abu Dhabi and Aldar, which strengthens its position as the leading developer and asset manager in Abu Dhabi.

Entry into the Egyptian market raises business risks but offers long term growth opportunities

In 2021, Aldar acquired a majority stake in [Egyptian property development company Sixth of October for Development and Investment Company S.A.E. \(SODIC\)](#). SODIC targets the upper middle-income market with residential projects primarily located in West and East Cairo. We believe that this acquisition is still relatively small for Aldar although it may lead to greater business risk if exposure to [Egypt](#) (B2 stable) were to grow in future. We consider SODIC as a strategic investment for Aldar because it is its first-time acquisition outside of the [United Arab Emirates](#) (Aa2 stable).

Improving real estate market outlook in Abu Dhabi

The rapid progress in vaccination – the UAE's successful vaccine campaign has amongst the highest vaccination rate in the world – has allowed the authorities to remove several coronavirus-related restrictions that were in place, in turn driving the rebound in economic activity. In our view, Abu Dhabi's real GDP growth is likely to accelerate to around 6% in 2022.

Abu Dhabi average sale prices have improved by 6% with successful launches of villa projects, whilst rentals remain under pressure, declining by -3% compared to the same period last year. In our view, supply and demand dynamics in the residential segment are balanced in Abu Dhabi and as a result the market will see less price volatility through a cycle. In addition, foreign investors comprise a much smaller share of the Abu Dhabi market. Aldar earns about less than 5% of its property sales from nonresidents. By contrast Dubai-based [Emaar Properties](#) (Baa3 negative) generates majority of its property sales from international buyers. This lower exposure to foreign investment partly reflects Abu Dhabi's historically more conservative foreign investment laws. For example, until 2019, nonresidents were only allowed to purchase 99-year leases and were not permitted to own freeholds.

In the commercial real estate segment, we expect rental income to increase in the next 12-18 months but downside risks exist if the spread of the virus is not contained. According to Jones Lang Lasalle, average rental rates in primary and secondary malls have declined around 5% in Abu Dhabi in 2021. However, in 2021, Yas Mall achieved 97% occupancy, up 17% from a year earlier. This was primarily driven by a successful redevelopment and repositioning plan. In the office sector, rental rates in Abu Dhabi increased by 5%. Following several months of muted activity, the office market in Abu Dhabi displayed signs of a recovery in Q4 2021. Indeed, AIP's commercial portfolio registered solid performance with strong leasing growth, ending the year 2021 at 93% occupancy. This was mainly driven by strong leasing in both International Towers and Aldar's HQ building. In the residential sector, we believe the market will continue its recovery in 2022. In 2021, AIP's residential portfolio like for like occupancy was up 5% year-on-year to 93% but net operating income decreased 2%. Overall, we believe that income generating assets are of good quality which will help the company attract and retain customers.

Strong operating performance despite coronavirus outbreak

Despite the coronavirus outbreak, Aldar reported solid credit metrics in 2021. As of 31 December 2021, Aldar had an adjusted gross debt to EBITDA of 3.4x and an adjusted fixed charge coverage ratio of 10.3x. Both ratios are well within our guidance for a Baa2 rating. This is driven by strong property development revenue with unit handovers and inventory sales, illustrating its market leadership

position in Abu Dhabi and a resilient buyer profile. At the same time, we note that revenue backlog increased from AED3.5 billion in 2020 to AED6.0 billion in 2021. In 2021, revenue from investment properties increased by 2% and total occupancy rate to 93% from 88%.

Strategic partnership with Apollo Global Management will strengthen business profile

On 14 February 2022, Aldar Properties and Apollo Global Management (Apollo), one of the world's largest alternative investment managers, signed a commitment that will see Apollo invests a total of USD1.4 billion in capital to drive the company's growth initiatives. The following market transactions will occur with Apollo: (1) USD500 million of investment into a land joint venture with Aldar Properties; (2) USD300 million of mandatory convertible preferred equity investment in Aldar Investments; (3) USD100 million of common equity investment in Aldar Investments; and (4) USD500 million of hybrid notes in Aldar Investments.

These proceeds will primarily be used for the acquisition of income generating assets in Abu Dhabi and the rest of the UAE in 2022. In our view, this will strengthen Aldar Investments' business profile by increasing its size and diversification. As a result, in 2022, pro forma for these transactions, we estimate Aldar Investments adjusted gross debt to total assets ratio to be at 39.7% and fixed charge coverage ratio to be at 5.3x. Whilst there will be less headroom under the current rating position because Aldar Investments adjusted gross debt to total assets ratio would be at the higher end of our downward rating threshold, we estimate both ratios to remain within our guidance for a Baa1 rating. In our view, it will also strengthen Aldar Properties business risk profile because it would increase the percentage of recurring revenue and decrease the percentage of property development revenue which is more cyclical.

ESG considerations

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Aldar has clearly formalized the separation between the asset management and property development businesses which provides a degree of clarity on how the company would like to manage risk levels of each business segment. Management has set a maximum loan to value (LTV) of 35-40% for the asset management business and below 25% LTV for the development business.

In addition, dividend policy has two components: (1) a dividend payout of 65%-80% of distributable free cash flow (defined by management as cash net operating income less opex allocation, maintenance capex and finance expense) from the recurring revenue business; and (2) a dividend payout of 20%-40% of the realized profit of real estate development projects after completion.

Liquidity analysis

Aldar has a strong liquidity profile given its unrestricted cash balances of about AED5.3 billion as of year-end 2021 and AED3.7 billion of committed revolving credit facility lines. The company has sufficient liquidity to cover the AED1.9 billion of bank borrowings maturing over the next 24 months. Restricted cash is used for launched off-plan property developments and has been received as installment payments from customers. Abu Dhabi introduced such restrictions in 2016.

Rating methodology and scorecard factors

The following table shows Aldar Properties PJSC's scorecard-indicated outcome using the [REITs and Other Commercial Real Estate Firms](#) methodology, with data as of December 31, 2021, and on a forward-looking basis.

Exhibit 5

REITs and Other Commercial Real Estate Firms Industry Scorecard			Current FY 12/31/2021		Moody's 12-18 Month Forward View	
Factor 1 : Scale (5%)	Measure	Score	Measure	Score	Measure	Score
a) Gross Assets (USD Billion)	\$13.5	A	\$16 - \$18	A		
Factor 2 : Business Profile (25%)						
a) Market Positioning and Asset Quality	Baa	Baa	Baa	Baa		
b) Operating Environment	Baa	Baa	Baa	Baa		
Factor 3 : Liquidity and Access To Capital (25%)						
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa		
b) Unencumbered Assets / Gross Assets	87.7%	A	88% - 94%	A		
Factor 4 : Leverage and Coverage (45%)						
a) Total Debt + Preferred Stock / Gross Assets	18.6%	A	30% - 33%	Baa		
b) Net Debt / EBITDA	1.4x	Aaa	4.1x - 4.8x	Baa		
c) Secured Debt / Gross Assets	5.8%	A	7% - 10%	A		
d) Fixed Charge Coverage	10.3x	Aaa	6.8x - 8x	Aa		
Rating:						
a) Scorecard-Indicated Outcome		A2		A3		
b) Actual Rating Assigned				Baa2		

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Source: Moody's Investors Service

Appendix

Exhibit 6

Peer comparison

	Aldar Properties PJSC			Emaar Properties PJSC			Emirates Strategic Investments Company	
	Baa2 Stable			Baa3 Negative			Baa3 Stable	
(in USD millions)	2019	2020	2021	2018	2019	2020	2019	2020
Gross Assets	\$11,235	\$10,954	\$13,488	\$30,378	\$31,781	\$31,659	\$2,844	\$2,731
Total Debt + Preferred Stock / Gross Assets	21.4%	22.0%	18.6%	20.0%	20.6%	19.6%	22.5%	23.0%
Net Debt / EBITDA	2.8x	2.3x	1.4x	1.8x	2.2x	4.3x	2.7x	2.1x
Secured Debt / Gross Assets	6.8%	8.2%	5.8%	3.1%	2.9%	3.0%	1.7%	1.3%
Fixed Charge Coverage	6.2x	8.0x	10.3x	8.9x	7.6x	3.8x	9.5x	6.0x

All figures are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 7

Moody's-adjusted debt breakdown

(in USD millions)	2017	2018	2019	2020	2021
As Reported Debt	1,771	2,061	2,311	2,270	2,371
Pensions	39	40	42	42	48
Non-Standard Adjustments	63	66	57	100	94
Moody's-Adjusted Debt	1,872	2,166	2,410	2,412	2,512

All figures are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 8

Moody's-adjusted EBITDA

(in USD millions)	2017	2018	2019	2020	2021
As Reported EBITDA	656	635	690	687	785
Unusual	40	-21	-72	-16	-42
Moody's-Adjusted EBITDA	696	614	618	671	743

All figures are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Ratings

Exhibit 9

Category	Moody's Rating
ALDAR PROPERTIES PJSC	
Outlook	Stable
Issuer Rating	Baa2
ALDAR INVESTMENT PROPERTIES LLC	
Outlook	Stable
Issuer Rating	Baa1
ALDAR INVESTMENTS HYBRID LIMITED	
Outlook	Stable
Bkd Subordinate	Baa3
ALDAR SUKUK (NO. 2) LTD.	
Outlook	Stable
Bkd Senior Unsecured	Baa1
ALDAR SUKUK LTD.	
Outlook	Stable
Bkd Senior Unsecured	Baa1

Source: Moody's Investors Service

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